

PROJECT TITLE

Project Report Reference: 2019-1020

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Project Description

The objectives of the Project were to provide state based red meat (beef) processing costs for NSW and Queensland to support a more detailed understanding of the cost pressures facing red meat processors, and thereby provide additional options to reduce the sectors costs. The Project followed on from an earlier AMPC Project [“Analysis of regulatory and related costs and duplication in red meat processing”](#) (colloquially referred to as “Cost to Operate Report”). The latter report examined the key operating cost components in beef processing in Australia for 2015-16 and provided a comparison with costs incurred, including the regulatory components, in each of the United States, Brazil, Argentina supplemented by New Zealand.

Project Content

This Project reanalysed data gathered for the earlier project to identify operating costs for each of New South Wales and Queensland separately, along with identifying the regulatory components thereof. The initial data was supplemented by further discussions with relevant state Government authorities which further enabled allocation of costs by State as well permitting a preliminary comparison between export and domestic-only beef processing facilities.

Project Outcome

The previous analysis indicated that, on average in 2015-16, operating costs (excluding livestock purchases) across Australia approximated \$360.62 per head of throughput or \$1.22 per kg HSCW. Labour-related costs made up approximately 58 percent of total operating costs, with approximately 85 percent of labour-related costs being regulated. Of the regulated component, almost 93 percent are associated with Federal regulation (Award wages; Fair Work legislation relating to leave allowances; and compulsory superannuation contributions) whilst 7 percent are subject to State regulation. The State regulated components are distributed at 4.2 percent to payroll taxes and 2.8 percent to workers compensation premiums.

Utilities-related costs have been estimated to approximate \$21.62 per head of throughput on average for beef processing facilities in Australia, of which the cost

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of electricity is the single biggest component. Overall, it has been estimated that, in 2015-16, approximately 44.3 percent of utilities-related costs are subject to some form of government regulation, equating to \$9.59 per head of throughput. Of these regulated costs, almost 48 percent are associated with Federal regulation (electricity and gas) whilst 52 percent are subject to State regulation (water, sewerage and waste disposal).

With certification-related costs, the weighted average associated with certification and associated audits in the beef processing sector is estimated at approximately \$7.29 per head. Of the regulated component of certification-related costs, approximately 97 percent is attributable to Federally mandated charges.

In New South Wales, total operating costs in beef processing (\$362.94) are very similar to the Australian average when measured on a per head of throughput basis, although approximately 3.7 percent higher when measured per kg HSCW as a result of the lower average weight of cattle processed. Labour-related costs make up almost 60 percent of total operating costs, with approximately 84.5 percent of labour-related costs being subject to some form of government regulation. Of these regulated costs, approximately 92 percent are associated with Federal regulation whilst 7.9 percent are subject to State regulation, comprising approximately 4.8 percent in payroll taxes and 3.1 percent in workers compensation premiums.

Utilities-related costs have been estimated to approximate \$23.05 per head of throughput on average for beef processing facilities in New South Wales, of which the cost of electricity is the single biggest component accounting for almost 50 percent of utilities-related costs. Approximately 36.8 percent of utilities-related costs are subject to some form of government. Of these regulated costs, almost 64 percent are associated with Federal regulation whilst 36 percent are subject to State regulation (water, sewerage and waste disposal).

In 2015-16, the weighted average costs associated with certification and associated audits in the beef processing sector in New South Wales is estimated at approximately \$6.93 per head, approximately 4.9 percent lower than the national average.

In Queensland, total operating costs in beef processing (\$350.77) are approximately 2.7 percent lower than the Australian average when measured on a per head of throughput basis, and approximately 4.8 percent lower when measured per kg HSCW as a result of the higher average weight of cattle processed. Labour-related costs make up approximately 58.7 percent of total

operating costs, excluding livestock purchases. Approximately 85.8 percent of labour-related costs are subject to some form of government regulation, of which approximately 93.6 percent are associated with Federal regulation whilst 6.4 percent are subject to State regulation, comprising 4.1 percent in payroll taxes and 2.3 percent in workers compensation premiums.

Utilities-related costs have been estimated to approximate \$20.90 per head of throughput on average for beef processing facilities in Queensland, of which the cost of electricity is the single biggest component, accounting for almost 40 percent of utilities-related costs. Approximately 48.5 percent of utilities-related costs are subject to some form of government regulation with 42 percent being associated with Federal regulation whilst 58 percent are subject to State regulation.

Overall, the weighted average costs associated with certification and associated audits in the beef processing sector in Queensland is estimated at approximately \$7.57 per head, approximately 3.9 percent higher than the national average. However, since 2015-16, the State licence fees in export-accredited processing facilities has decreased substantially and State monitoring is undertaken in real time using a digital monitoring application. These factors are estimated to have reduced the State regulated component of certification, assessed as \$0.15 for 2015-16, to effectively close to zero today.

An assessment of the differential in operating costs between export-accredited and domestic-only processing facilities suggests that in both New South Wales and Queensland, the differences are likely to be minimal. Certification-related costs could be expected to be approximately 25 percent lower in domestic-only facilities although this may be counter-balanced by the costs associated with the direct employment of meat inspectors.

Benefit for Industry

The overall benefit to the industry is the provision of current and defensible analysis examining the cost to operate in each of New South Wales and Queensland, with particular reference to those costs influenced by State regulations.

The single biggest component of operating costs in beef processing nationally and in each of New South Wales and Queensland is associated with labour-related costs. Whilst the major proportion of these costs are Federally-mandated, any cost relief at the State level would be beneficial. Addressing payroll tax in particular, it is worth noting that Victoria has 2 tiers of payroll tax rates with a lower rate applicable to businesses operating in regional locations. Adopting a

similar system in New South Wales and Queensland would be beneficial to the beef processing sector in each State whilst potentially also encouraging decentralisation of overall employment. The introduction of a similar system in New South Wales is estimated to result in cost savings to the beef processing sector in that State of up to \$7.9 million. A similar analysis for Queensland indicates potential savings to the sector of approximately \$8 million.

State governments have little influence over the cost of utilities with the exception of water, sewerage and waste disposal costs. However, in line with the recommendations in the Cost to Operate report, State Governments should also support both economy-wide and industry-specific policies that underpin increased energy cost competitiveness for the red meat processing industry.